

# *News and Information*

*From the Tennessee Division of Consumer Affairs*

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**For Immediate Release  
July 12, 2001**

**Contact:  
David McCollum  
Chris Allen**

**Weekly Column by David McCollum, Director  
Tennessee Division of Consumer Affairs  
Volume 1, Issue 24**

## **Fundamentals of Financing**

The new car you bought a couple of years ago doesn't seem so new these days. The daily commute, business trips, and family vacations have piled on the miles, and you've got a couple of parking lot dings as well. You're less than halfway through the payments, and you realize the car is now worth less than you owe on it. At the rate you're going, this is only going to get worse.

Then, you hear an advertisement promising to "pay off your trade-in *no matter how much you owe!*" Now that sounds promising. You can get a new car, and get out of what has become a bad situation. Unfortunately, things are never that easy.

If you trade in a vehicle that has not been paid off, the amount you owe is always added into the final financing agreement. When you owe more on the vehicle than you are getting for it, that amount will be added to the price of the car you're buying. This will increase the total amount of the car loan.

Unless you can convince the dealer to give you a trade value equal to the amount you owe (don't hold your breath, my friend), you'll be paying for that lost value over the course of your new car loan. In the unlikely event you can make such an arrangement, you will probably see an increase in the asking price for your new vehicle. The fact is, you've over-driven your vehicle, and you are going to absorb the loss of value one way or another.

Rather than compounding the problem with the purchase of a new vehicle, use any funds you were thinking of spending on a down payment to retire the car loan more quickly. Pinch a few pennies and pay off the vehicle early if at all possible. You can think about purchasing a new car when you're in a better bargaining position. By that time, you may realize you've got a reliable, road-tested vehicle you'll want to keep for a while.

If you have questions or concerns regarding vehicle financing or any other consumer issue, contact the Tennessee Division of Consumer Affairs at 1-800-342-8385 or visit [www.state.tn.us/consumer](http://www.state.tn.us/consumer).